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**FISCAL IMPACT STATEMENT**

**LS 6935**

**BILL NUMBER:** SB 251

**NOTE PREPARED:** Feb 20, 2004

**BILL AMENDED:** Feb 19, 2004

**SUBJECT:** Health Plan Evidence of Coverage; School Health Insurance Pilot.

**FIRST AUTHOR:** Sen. Lawson C

**FIRST SPONSOR:** Rep. Fry

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill allows an accident and sickness insurer, a health maintenance organization, and a limited service health maintenance organization to provide evidence of coverage in electronic or paper form. The bill specifies that an accident and sickness insurer, a health maintenance organization, and a limited service health maintenance organization will include in enrollment materials information on obtaining evidence of coverage.

The bill also provides for a school corporation employee health benefit pilot project.

It allows certain employers to take a tax credit related to making a health benefit plan available to the employers' employees.

It also sets forth provisions allowing school corporations to enter into interlocal agreements to establish a cooperative risk management program to provide for coverage of certain risks of the school corporations.

**Effective Date:** (Amended) Upon Passage; July 1, 2004.

**Explanation of State Expenditures:** (Revised) *Evidence of Coverage*. If allowing electronic submission of evidence of coverage reduces administrative expenses for insurers, the proposal could have an impact on state expenditures only to the extent that insurers or HMOs who contract with the state to provide health insurance pass all or part of the savings on to the state.

*Health Insurance Pilot:* Ten schools selected by DOI would be able to participate in the state health insurance program. The pilot program lasts until a date not earlier than July 2010 and not later than December 2010. SPD is required to file an annual report with the Legislative Council. The report should provide information

on the effect of the pilot on the state employee health plan, including the effect on premium rates, costs to the state and the school corporation, and other relevant information. SPD may incur some additional costs in generating the report since some additional actuarial studies may be needed.

The state may not pay any part of the cost of coverage for the participating schools. The state could have some increases in health costs if the actuarial experience of the participating schools is worse than the state's experience or reduced cost if the school's experience is better than the state's experience. Since schools choose to participate, schools with health care costs higher than the state would probably choose to participate in the pilot. The state costs for the Anthem Traditional plan are \$3,640 for single coverage and \$10,010 for family. The total premium costs, employer and employee, for the Anthem Traditional plan are \$4,130.36 for single coverage and \$11,583.78 for family.

*Cooperative Risk Management:* The cooperative must send copies of audit reports, by-laws, interlocal agreements, certified financial statements, and other documents to the Commissioner of Insurance and a copy of the audit report to the State Board of Accounts. If the cooperative fails to have an audit performed, the Commissioner of Insurance must cause the audit to be performed at the expense of the cooperative. If a cooperative fails to comply, the Commissioner must issue a notice of noncompliance. After a cooperative receives a notice of noncompliance, the cooperative must file with the Commissioner a written request for time to restore compliance and a plan to restore compliance. If the plan is not filed, not approved by the Commissioner, or at the end of one year the cooperative program is not in compliance, the Commissioner may grant additional time to comply, or suspend, limit, or terminate the authority of the cooperative. The Department of Insurance (DOI) may adopt rules to implement the above.

The above provisions will increase administrative expenses for the DOI. However, it is assumed that the DOI will be able to absorb these additional expenses given its current budget and resources.

*Health Benefit Tax Credit:* The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate the health benefit credit. The Department's current resources should be sufficient to absorb additional costs associated with the implementation of the credit

**Explanation of State Revenues:** (Revised) *Health Benefit Tax Credit:* A health benefit credit equal to \$50 per enrolled worker and capped at \$2500 for employers (with 10 or more workers) providing health benefits to their employees for the first time will decrease Adjusted Gross Income Tax and Financial Institutions Tax liabilities for businesses during the two years of the credit and in following years as the carryforward is used.

The bill could also increase Insurance Premiums Tax revenues as more insurance policies are underwritten in the state. For the first two years that an employee participates in the health benefit plan, there will be no effect on the state Adjusted Gross Income Tax liabilities of individuals. The increase in Insurance Premium Tax revenues may partially mitigate the decrease in AGI tax liabilities, the extent to which will be determined by the amount of existing Insurance Premium Tax credits that health insurance companies currently take and carry forward.

The following assumptions are used to calculate the estimates: (1) All businesses currently not offering health benefits offer them and take the credit; (2) 10% of a business's employees participate in the health benefit plan.

*Adjusted Gross Income Tax Impact:* The bill establishes a credit for employers with 10 or more workers that offer at least one health benefit plan to employees for the first time. The credit is equal to the lesser of \$2500 or \$50 for each enrolled employee and can be taken for two years. An employer claiming the credit must offer

health insurance for at least 24 consecutive months after the taxable year in which the health insurance plan is initially offered. The bill contains a “claw-back” provision where employers who fail to meet this requirement have to pay back the tax credit. The credit is nonrefundable, but unused credit may be carried forward to subsequent years. The tax credit may not be carried back to previous years. In addition, the bill requires that an employer claiming the credit notify employees who participate in the health benefit plan of the amount of the employee’s eligible benefits that are included in the employee’s state adjusted gross income for the first and subsequent taxable year after the employer takes the credit. Eligible benefits are the total amount of health insurance premiums withheld from the employee’s federal adjusted gross income. The credit is available beginning January 1, 2005.

The impact of this bill on corporate Adjusted Gross Income is a function of the number of employers with 10 or more workers currently not providing a health benefit plan to employees that choose to offer a health benefit plan and take the tax credit.

Recent survey results suggest that in 2003 there were approximately 7,585 Indiana businesses with 10 or more employees that did not offer a health benefit plan. Of these businesses, a number of them would have sufficient tax liability to take the full credit in a given year. The employer tax credit is estimated to decrease the income tax liabilities of businesses by \$0.6 M in FY 2005 and FY 2006. The carryforward is estimated to total \$0.3 M. The bulk of the carryforward is likely to be used in FY 2007 and FY 2008.

The bill requires that the health benefit plan established by employers satisfy the requirements of Section 125 of the IRS Code. This section of the IRS Code allows employees (and employers) to pay their share of insurance premiums with pretax dollars which reduces the employee’s taxable income and employer’s FICA and unemployment insurance payments. The employee’s use of pretax dollars to pay for health insurance would decrease state individual income tax revenues, therefore the bill requires that insurance premiums of employees who participate in the health benefit plan be included in the employee’s state Adjusted Gross Income for two years. After two years, the premiums are not added back to state AGI which will decrease individual AGI tax revenues by approximately \$3.7 M per year. This estimate is based on the following assumptions: (1) employers offering a health benefit plan for the first time as a result of the bill would require participating employees to pay all or a substantial portion of the insurance premium, which would reduce the participation rate among employees. A 10% participation rate is used to calculate the estimates. (2) Employees pay health insurance premiums with pre-tax dollars, and employers do not pay a portion of the premium.

Revenue from the corporate AGI tax and the Financial Institutions Tax is deposited in the state General Fund. A portion of the Corporate AGI is deposited in the Property Tax Replacement Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

*Insurance Premiums Tax Impact:* The bill could increase revenue from the Insurance Premiums Tax as health insurance premiums written in Indiana increase. According to a recent survey, the average annual premium cost for health insurance is \$3,383 for single coverage and \$9,068 for family coverage. The potential increase in the Insurance Premiums Tax would be approximately \$1.2 M per year. The estimates are based on the assumptions that 10% of employees participate in the health benefit plan of employers offering the plan for the first time and workers participating in the health benefit plans are currently uninsured or not insured by another policy. A 10% employee participation rate may be conservative given that recent survey results suggest that over 84% of workers in firms offering health benefits participate in the health plan. In Indiana, approximately 12.3% of covered employees enroll in HMO plans, which do not pay the Insurance Premiums Tax. This is accounted for in these estimates.

*Note:* Information on the Insurance Premium Tax liability of health insurance companies operating in Indiana is unknown. Due to the magnitude of existing tax credits available to health insurance companies operating in Indiana and the carryforward of these credits, the increase in Insurance Premium Tax revenues from the proposed credit is likely to be lower than anticipated.

The Insurance Premiums Tax is deposited in the state General Fund.

**Explanation of Local Expenditures:** (Revised) *Evidence of Coverage.* The proposal could have an impact on local expenditures only to the extent that insurers pass all or part of any savings gained from electronic submission on to the local unit.

*Health Insurance Pilot:* Schools that choose to participate in the pilot would probably have higher health insurance costs than the state, so there would probably be a reduction in health costs to the schools. Pilot schools that negotiate health benefits as part of their collective bargaining process could have some increased administrative costs if the agreement has to be changed to reflect the change in coverage.

*Cooperative Risk Management:* The bill could reduce the insurance costs of local school corporations. It allows schools to enter into interlocal agreements to establish a cooperative risk management program for insurance. The program would be to jointly self-insure certain risks and purchase excess coverage if claims exceeded a certain amount for:

1. Casualty insurance.
2. Property insurance.
3. Automobile insurance.
4. Surety and fidelity insurance coverage.
5. Umbrella and excess insurance coverage.
6. Worker's Compensation coverage.

The establishment of the program might allow schools to insure a greater risk together than they could individually and reduce costs of aggregate insurance coverage they might require. It is assumed schools would only enter into the agreements if they saved money or reduced exposure to future expenditures. Members of the cooperative may not leave the cooperative without the approval of the Commissioner of Insurance.

**Explanation of Local Revenues:** (Revised) *Health Benefit Tax Credit:* The bill requires that the employees of employers claiming the credit add back the value of the employee's health benefit contribution to state adjusted gross income for the taxable year in which the employer offers health benefits and the following year. Therefore, the bill will have no impact on local individual adjusted gross income tax revenues for these two years. The employee's health benefit contribution is not added back after these two years which would decrease the level of taxable income for these employees. As a result, counties imposing a local option income tax (CAGIT, COIT, CEDIT) would experience an indeterminable decrease in revenue from these taxes beginning two years after businesses have taken the credit.

**State Agencies Affected:** All.

**Local Agencies Affected:** Units providing health insurance to employees and schools; Counties with local option income taxes (third and subsequent years after the health benefit credit is taken).

**Information Sources:** *For health benefit tax credit estimates:* Kaiser Family Foundation, *Employer Health Benefits 2003 Annual Survey*, available at <http://www.kff.org/insurance/ehbs2003-5-set.cfm>; and *State Health Facts Online* available at <http://www.statehealthfacts.kff.org/>; OFMA Corporate Income Tax database; FY

*2003 Indiana Handbook of Taxes, Revenues, and Appropriations*, Bureau of the Census, *County Business Patterns*.

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